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Issued October 1934

UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION
WASHINGTON, D. C.

REOPENING FOREIGN MARKETS FOR FARM PRODUCTS

Extract from an address by Henry A. Wallace, Secretary of Agriculture, at the American Institute of Cooperation, Madison, Wis., July 11, 1934

Three paths in foreign trade are open to America. We can go nationalistic, and become highly self-sustaining; we can go internationalistic and try to win back our lost foreign trade; or we can take a course perhaps half-way between.

The nationalistic course would lead us toward ultimate self-containment, but it would do so at a cost heavy in terms of economic sacrifice and perhaps extreme regimentation; a cost which, in agriculture alone, would mean the abandonment of about 40 million acres of good crop land. The internationalistic course, on the other hand, might not involve any acreage reduction, but would obligate us to import annually at least 500 million dollars more of goods than we now import. Only in this way can foreign countries pay interest on their debts to us and at the same time make current purchases of goods and services on a predepression scale. Between these extremes there is a third alternative, a "planned middle course." This would involve the admission annually of perhaps 200 million dollars more of goods than we now import and at the same time permanent seeding-down or reforesting of some 25 million acres of good plow land, or perhaps 50 million acres of poor land.

None of these courses is easy, none can be taken heedlessly or spasmodically. Each involves some pain. The question is whether we are willing to suffer a little pain now in order to avoid an infinitely greater pain later on. Because the middle course involves perhaps the least discomfort, I have been inclined to favor that, and to recognize it as our probable choice.

National Trade Policy Needed

The big problem in American agriculture as well as in our entire economic life is to determine whether or not we are going to continue producing on the 50 million surplus acres formerly needed for exports. We must develop a national policy to which we can stick for 25 or 50 years.

The pursuit of a planned middle course involves two steps: First, some reduction in the size of our agricultural plant as a whole; and, second, a reopening of foreign markets for our farm products. With

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the world's capacity for agricultural production, including our own, greatly expanded throughout the war and post-war era, and in the face of a general collapse of purchasing power for our farm products both at home and abroad, it was not a matter of choice but of sheer necessity that led us to the adoption of an emergency program to reduce surplus acreage.

But the amount that we can export with profit need not and should not continue indefinitely at the pitifully shrunken level to which it has now fallen. Ten years ago—to go back before the peak of the inflationary period preceding the depression—we were exporting almost 2 billion dollars' worth of agricultural products annually. During the 5-year period, 1922–26, our agricultural exports averaged annually slightly less than 2 billion dollars. By 1933 the value had declined to 694 million dollars—scarcely more than a third of what it had been a decade earlier. The shrinkage in quantity was not so great as these figures indicate. The prices received were necessarily distress prices.

Tariff Reduction Is Justified

People who delight in splitting hairs say it is inconsistent to launch a simultaneous attack to restore foreign trade and adjust domestic production. They forget that a manufacturer usually redoubles his efforts to sell goods when a lowered demand leads him to reduce his output. The same principles apply to agriculture.

We are also told that it is inconsistent and unfair to ask our farmers to curtail production while we permit any imports of agricultural products, however remotely competitive, to come into the country. It is true that when we curtail production of a crop under conditions where imports are likely to increase as a consequence, we are compelled, as a matter both of justice and of common sense, to take steps to limit those imports. But to say that every dollar's worth of agricultural imports, however remotely competitive with domestic production, must be shut out of the country before any curtailment of domestic production is attempted, is to fail to understand the problem. The only outcome would be to subsidize the less effective kinds of agricultural production at the expense of the more effective, while still leaving us face to face with the problem of finding outlets for a large surplus of farm products.

New Tariff Act Holds Promise

Under the new tariff act the President is authorized to enter into trade agreements with foreign countries and in connection therewith to reduce—or increase—any existing tariff rate by as much as 50 percent. I especially stress the words " in connection therewith ", because it has been erroneously assumed by some that the act authorizes the President, simply at will, to alter any rate by 50 percent, without reference to tariff negotiation with foreign countries. Not only must the changes in rate be limited to agreements entered into with foreign countries; but, in addition, since the purpose of the act is to increase foreign trade, we must suppose that most, if not all, of the changes in rates will be downward.

This drive for the restoration of foreign trade surely has not come too soon. Everywhere, international trade has shrunk sensationally.

In terms of volume, world trade in 1933 was reduced approximately 70 percent of its 1929 level; in terms of value, to but 35 percent of its 1929 level. Of our own foreign trade the value declined from 9½ billions of dollars in 1929 to 2⅓ billions in 1933—a decline of approximately three-fourths. Moreover, our share in total world trade between 1929 and 1932 fell from 13.83 percent to 10.92 percent—a very significant decline. To the United Kingdom alone we sent some 597 million dollars' worth of agricultural products annually in 1922–26, but only 192 million dollars' worth in 1933. To Germany we averaged 288 million dollars' worth annually in 1922–26, but only 103 million dollars' worth in 1933.

Farmers Have Much at Stake

In any soundly conceived program for the upbuilding of our seriously depleted foreign trade, farmers in this country have much at stake. But it is not only a matter of restoring foreign outlets for farm products; it is a matter also of improving the entire economic well-being of the country and hence of increasing the demand for farm products at home as well as abroad.

What, then, are the possibilities of restoring foreign markets for farm products, and for which are the chances most promising?

Past performance does not necessarily tell us what future performance will be. Earlier trade figures must therefore be used with reservations. We were able to export nearly 2 billion dollars' worth of agricultural products annually in the predepression era—a time when our exports were being inflated by overzealous foreign lending, the implications of which, in terms of increased imports of goods and services, we were unwilling to face. But it does not follow that we can expect to export as much in terms either of quantity or value in the future.

European Countries Great Potential Outlet

Of the 2 billion dollars' worth of annual exports in 1922–26, nearly half went to the United Kingdom and Germany, the former taking 30.6 percent, the latter 14.8 percent. Another 30 percent was distributed between France, Italy, Japan, Canada, and Netherlands, in ratios ranging from 7.1 percent for France down to 4.7 percent for Netherlands. Therefore, while Japan, China, and a number of other countries outside of Europe cannot be overlooked, the great potential outlet for our farm products remains, as it has always been, on the other side of the Atlantic.

Cotton and Tobacco Prospects Best

For cotton, our greatest agricultural export, increased trade is chiefly a matter of purchasing power rather than of trade barriers. In this case the significance of the tariff-bargaining program upon which we are about to enter arises from its relation to world economic revival as it affects the European cotton-textile industry. Cotton exports have been directly restricted by trade barriers only in Germany, and it is not yet clear whether the German restrictions are intended to restrict consumption or to promote a policy of hand-to-

mouth buying. On the whole our cotton exports have been restricted by the low level of consumer's incomes in foreign countries rather than by trade restrictions. Tariff bargaining, insofar as it increases world trade, will increase world business activity and purchasing power and hence will strengthen the foreign demand for cotton.

More direct are the possible benefits of tariff bargaining for our other important export crops, since most of them are subjected to serious trade restriction. Among those in a more favorable position is fruit, the price of which could be greatly improved by a relaxing of restrictions.

For tobacco, also, the possibilities seem good. The United States continues to possess important advantages over other countries in the production of certain types of tobacco.

Wheat and Pork Face Serious Obstacles

Trade restrictions on pork in the importing countries, especially in the United Kingdom and Germany, have decreased imports more drastically than the countries have increased their domestic production. By tariff negotiation, therefore, it may be possible to increase our exports to these countries without displacing any great amount of their domestic production.

For wheat the prospects are less favorable than for pork for two reasons. The first and more important reason is the increasing comparative advantage of the newer countries. The other reason is that those importing countries that have reached or approached self-sufficiency in wheat probably will be reluctant to retreat very far from their present position. The reasons for this reluctance are both economic and military. Self-sufficiency in wheat is something to which these countries seem to attach peculiar importance.

In the greatest importing area, the United Kingdom, the situation is different. For the measures adopted by the British to encourage domestic production have done little to discourage consumption, and while encouraging some expansion of production, have nevertheless left the country dependent upon imports for most of its supplies. Hence there is little that can be done through tariff bargaining to increase total British imports of wheat, and probably not much that can be done to increase our share of the trade; though abandonment of preference to the dominions would help to some extent.

We recently have had a little experience in bargaining for increased exports of farm products through quotas on liquor imports which illustrate both the possibilities and obstacles involved in such efforts.

At the time of the repeal of the Prohibition Act a marketing agreement was drawn up under the authority of the Agricultural Adjustment Act by means of which it was possible to institute a system of import quotas on wines and liquors. It was specifically set forth in the marketing agreement that the quotas should be based on the average imports during the 5 years immediately preceding the war and that all countries should be allowed quotas equivalent to those figures. It was provided that additions would be made to these basic quotas for such countries as would agree to make some concession with respect to their imports of agricultural products from the United States.

It soon became apparent that the liquor quotas would be of relatively little value for bargaining purposes, because the American demand for wines and liquor from most countries proved to be considerably less than was permitted by the basic quotas for which no bargaining was necessary. Our high import duties on wines and liquors were an outstanding factor restricting the outlet for foreign wines and liquors into this country, and there was no provision for a reduction in these duties in connection with the liquor-bargaining program.

Trading Fruit for Wine

It was possible, however, to secure certain very definite advantages for our export trade in agricultural products. The expansion of the French market for American apples and pears during the last 2 or 3 years has been one of the outstanding developments in our export trade in agricultural products. We were consequently anxious to maintain our outlet in this market to the fullest possible extent. It was possible to induce the French Government to increase the quota for apples and pears to 20,000 metric tons for the first quarter of 1934. This was a larger quantity of apples and pears than had ever before been exported to France from the United States in any corresponding period and over five times the quota that was granted for American apples and pears in the last quarter of 1933.

The other outstanding instances of advantages gained through the liquor quotas were in connection with tobacco exports to Spain and Italy. The Spanish Government, through the Spanish Tobacco Monopoly, made a commitment to purchase 3½ million pounds of American tobacco over and above the amount of the purchases that had been intended for the 1934 season. As for Italy, the Italian Tobacco Monopoly agreed to purchase in the United States 1¼ million pounds of leaf tobacco. This commitment, while for a relatively small amount, was distinctly helpful because of the fact that Italy now buys from the United States certain higher-priced types of dark tobacco for which the demand, both foreign and domestic, is rather restricted.

Concessions Necessary for Trade Expansion

The thing that stands out most, however, in this experience with the liquor quotas is that we cannot expect something for nothing. Though we secured some important concessions through the liquor import quotas, we could have secured a great deal more if our tariff duties on liquor had not been so high that the quotas extended could not be fully used.

And this brings us to the crux of the whole matter. What concessions are we prepared to make in connection with our new tariff-bargaining program?

It has been suggested that we could make painless concessions by encouraging imports of noncompetitive goods, such as coffee, tea, or rubber. But we can, in fact, make no concessions on such products. They are not dutiable under our tariff, and our consumers already buy as much of them as they can afford to at world market prices. In order to make a real concession, we must make it on some commodity of which our Government is now hindering or restricting the imports to the detriment of the foreign producer.

Make Concessions on Minor Commodities

There are, however, many minor commodities on which high rates of duty are imposed by our tariff although we produce them in insignificant quantities or not at all. The Tariff Commission has recently listed over 350 types of commodities (the majority being manufactured commodities), which are described as "dutiable articles more or less noncompetitive and with respect to which foreign countries possess advantages." For 19 of these items the rate of duty in 1932 was over 100 percent ad valorem. Evidently our country does not possess the resources required to develop the production of these commodities under tariff protection. Consequently the effect of tariff protection has been to restrict consumption rather than to stimulate production, and a lowering of duties on the commodities in question will permit imports to increase without substantial injury to any important domestic interest.

But if we really want to get anywhere, we shall have to make more important concessions than any I have suggested thus far. Besides these minor industries which tariff protection has failed to develop because they are not suited to American conditions, we have a number of industries which are capable of successfully meeting foreign competition in the domestic market, but which are nevertheless protected by high tariff duties.

A substantial reduction of tariff duties on these products would not prevent the domestic industry from supplying most of the domestic consumption. If, for instance, our imports of a commodity increased from 2 percent to 8 percent of our domestic consumption, the gain might be great to foreign producers but the loss relatively small to our domestic interests, and even this loss would promptly be made good by a higher national purchasing power. The Tariff Commission has listed over 1,000 dutiable articles of which imports represent less than 5 percent of domestic production. In the case of more than half of these, our imports in either 1931 or 1932 were 1 percent or less of domestic production.

Naturally not all of the products coming under this category can be regarded as being specially suitable for concessions. Here we need some guiding principles to aid us in the selection of those which are most suitable.

One such principle would be to select commodities of which the consumption responds readily to a change in price—commodities of which the demand is relatively elastic. A reduction of tariff duties on such articles will permit a real expansion of imports without a corresponding reduction of the outlet for domestic production. Generally speaking, the demand for most manufactured products is more elastic than the demand for most agricultural products.

Industry Given Preference Over Agriculture

Agriculture hitherto has always been given the worst of the deal in tariff manipulations and at the present time I think it should be pointed out that a reduction of the tariff duties on some, at least, of our agricultural products would result in significant reduction of price with but a relatively small increase of imports. The sacrifice

which domestic producers would need to make would be greater, in proportion to the gain made by the foreign producer, than in the case of many manufactured products for which the demand is more elastic.

Another important guiding principle will be to choose commodities which are produced in this country under conditions of monopoly or partial monopoly. We have in the United States a number of tariff-protected monopolies, cases in which the tariff duty is higher than would be necessary to enable the domestic producer to meet foreign competition. Such duties have enabled the monopolists to maintain prices at unduly high levels and to restrict output—and hence also employment—unduly.

Those commodities of which the prices have been held relatively high during the depression owing to inadequate competition should be among our first choices for sacrifice in tariff bargaining. The producers of these goods will be forced to lower their prices in order to meet foreign competition, but at lower prices they will be able to sell a larger volume of goods. Hence employment in the industries producing these goods may actually increase.

Industries That Meet Foreign Competition Lead in Wage Increases

Many people are afraid that a reduction of tariffs would tend to lower the level of wages in this country, and bring it nearer to the levels prevailing in many foreign countries. Most of us know that this is a fallacy. Those industries which have led the way in the trend toward higher wages in this country are the very industries which have shown the greatest ability to meet foreign competition at home and abroad. These are the industries producing automobiles and various kinds of machinery and those in general which employ mass-production methods. Our tariff, by fostering the growth of other industries in which our capacities are less effective, and in which wages are lower, has retarded the long-time tendency toward higher wages and better living conditions.

We should, with a few exceptions, make concessions on those commodities in which our productive abilities are least effective. Our most ineffective industries are those which need the highest degree of tariff protection to enable them to meet foreign competition.

Control Production Until Foreign Markets Improve

Since the increase in foreign purchasing power resulting from these tariff negotiations will be slow at best, the farmers of the United States will have to hold fast to the present adjustment machinery until that foreign market is reopened. Whether that will be 2, 5, or 10 years, no one can predict. But unless and until that does happen, it would be disastrous to revert to the old happy-go-lucky way of plowing up the fence corners and shipping the product off to Europe for whatever it would bring.

U. S. GOVERNMENT PRINTING OFFICE: 1934